recognized liability for coupons maturing at the bank of Scotland, in London; to meet which the exchange was procured, and in January of the following year, the overpayment—£181 9s. 6d., or $889.63—was placed to the credit of the account in the Bank of Commerce, but not accounted for by the Chamberlain. Coupons amounting to $700 were twice entered in the cash book as paid during 1875.

For several years the amount ostensibly due to the bank at the close of December was carried to a special ledger account with the bank, to which the deposits of the next year were charged until the account was balanced, when the bank balance re-assumed its position as a portion of the cash book balance; in two instances the amount of deposits for which the Chamberlain could take credit in his next year's cash account, was increased by the addition of erroneous journal entries—in 1876 by the amount of $6,000, and in 1879 by that of $4,524.49—by which means the city was defrauded to that extent.

An examination of the account with the County of Middlesex, and comparison with vouchers, showed unauthenticated charges of $500 on October 23rd, 1878, and $500 in September, 1879, which, upon reference to the County books, are confirmed as fraudulent.

The Chamberlain has omitted to take credit for interest paid on bank over-drafts in June, 1881, amounting to $337.36, but a cheque of $150 charged by bank in July as outstanding has been wrongly taken to represent bank interest, and is charged as such, leaving a difference between the two amounts in his favor. He is also entitled to credit for $1·0 paid by him on accounts represented by draft No. 680, which exceed by so much the amount of the draft, and to be debited with $20 overcharge on sterling exchange both in the same year.

Amongst the small amounts not accounted for may be mentioned a payment on Hospital account, October, 1876, $112.2·, and payment on mortgage account, May, 1882, $112.26, the latter of which would probably have been eventually entered.

A COMPARISON.

Upon adjustment of the cash account at the close of 1881, and comparison of same with the bank account, I find that the

Amount due to Bank of Commerce at date of December 31st, 1881, was	$38,349 02
And I have identified payments made by cheques on bank in 1882 but included in the cash account of 1881 amounting to	12,323 02
Making a total due to bank on 1881 account of	50,672 04
The balance placed by Chamberlain to credit of Bank of Commerce as balance due them(after transactions above mentioned and receipt of $740.31 on school account in January, 1882) being balance shown by his cash account was	28,397 12
Leaving a deficit of	22,274 92
In the cash account, to which must be added further deficiency in this account to June 1, 1882.	643 94
Making a total of	$22,918 86
Against which the Chamberlain has subsequent credit, for salary due to and advances made by him of	559 98
Net balance of cash deficit	$22,358 88

The total deficiency at present ascertained is $79,937.35, and I believe that no further considerable amounts will be found to add to it. The ledgers, which had not been susceptible of a balance since the year 1852, have been checked throughout, and brought to a balance ready for the final adjustments at date of December, 1881, showing balances for or against every Council from 1847 to 1880, which should have been closed to a principal account from time to time, as the transactions of each year were completed. The entire issue of debentures has been checked through, and payments of coupons and interest identified, a task the magnitude of which may be understood when I add that from 2,100 to 2,200 debentures have been issued by the town and city of London, most of them bearing 40 coupons each. The receipts from tax arrears and land sales have been carefully checked, and the results already reported, and although time has not sufficed for a close audit of the whole thirty years' business, nearly all the principal accounts have been carefully analyzed.

I would respectfully call your attention to the fact that nearly the whole of the deficiency which I have to report would have been rendered impossible by the use of suitable books of account, properly systemized and regularly balanced—the accounts of interest on the debentures, arrears of taxes, &c., being quite capable, if properly kept, of being balanced at any period, and shown to agree with the record in the general ledger. Such verification of balances, with a careful scrutiny of the cash and bank balances, and a recognition of all outstanding cheques, are absolutely essential to a perfect audit. Cash statements, correct though they may be, do not furnish complete information, and require to be supplemented with balance sheets, which in their turn will be of little value unless all the entries of incomplete transactions are properly recorded in the books. The absence of the very necessary information which might be thus afforded not infrequently leads to much misunderstanding of our civic affairs, as will be fully apparent upon a comparison of the annual printed statements with the records of the years they represent. An important illustration of this may be quoted: In the estimates for each year provision is made for the Sinking Fund. At the close of each year a statement of receipts (many of which do not belong to the year) and disbursements (some of which belong to the same category) is furnished, and it is generally deemed satisfactory if the balance at the close of the year is no worse than that which began it. This, however, may be shown, and no provision whatever made for the sinking funds, which have been so far ignored that the only trace of them up to the close of last year is to be found in the annual estimates upon which the amounts were raised; the journal and ledger entries acknowledging that they ought to have been duly appropriated, and a mention of them among the liabilities of the city.

In conclusion I submit herewith, by the instruction of your Chairman of Finance, whose cordial and valuable assistance in the investigation I now desire to acknowlege, the following statements—E. and O. E.:—

(1.) Memorandum of deficiency in cash account as at May 31, 1869

(2.) Memorandum of deficiency in cash account as at May 31, 1881.

(3.) Memorandum of defalcations between May 31, 1869, and May 31, 1881.

(4.) Memorandum of defalcations between May 31, 1881, and May 31, 1882.

(5.) General statement of total deficiency as far as ascertained up to the present time.

The close of the year is now so near that it will be necessary to balance the old ledger at once and bring forward the accounts finally remaining open to the new ledger without delay, in order that the city books may be properly balanced early in January.

The entry of the debentures and coupons in the debenture book has been kindly undertaken by the Treasurer, Mr. Pope, who has a large portion of that work already done, which has considerably lightened my labors, so that at an early date in the new year I shall be able to complete that portion of the work by entering the postings or folios of amounts paid on this account during the past thirty years.

I need only add that any information for which I have applied has been cheerfully and readily furnished by all the city officials.

All of which is respectfully submitted.

(1) Deficiency in cash account at close of May, 1869:—

Receipts	$61,725 68
Disbursements	26,248 91
Excess of receipts over disbursements per cash account	$35,476 77
Balance at credit of city in Bank of Commerce, no cheques outstanding	$29,207 17
Deficiency	$6,269 60

(2) Deficiency in cash account at close of May, 1881—

Disbursements		$82,618 99
Receipts		50,314 04
Excess of disbursements		$32,304 95
Overdraft Bank of Commerceaccount	$47,289 96	
Less cash deposited June 4th, and entered received for Licenses in May	887 25	
		46,402 71
Deficiency		$14,097 76

(3) Deficiency and defalcation between 31st May, 1869 and 31st May, 1881	$48,018 61
(4) Deficiency and defalcation between 31st May, 1881, and 31st May, 1882	$8,664 86